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TAGS: [ECON](#) [ENRG](#) [EPET](#) [IR](#) [IZ](#) [KU](#)
SUBJECT: EMBASSY ECONOMIC MINISTER DISCUSSES HYDROCARBON
LEGISLATION, IRAN AND KUWAIT WITH MINISTER OF OIL HUSAYN
SHAHRISTANI

Classified By: ECONOMIC MINISTER CHARLES RIES, E.O. 12958, REASONS 1.4
(b) (d)

¶1. (C) Summary: On July 15, Minister of Oil Husayn Shahrستاني met with MIN Charles Ries, ECONCOUNS Dan Weygandt and econoff to discuss hydrocarbon legislation, Daura refinery, fuel supplies from Kuwait and crude exports via fuel swaps with Iran. Shahrستاني said that there are two major issues to be resolved on the Hydrocarbon Law, i.e., the desire of the KRG to use a reference to the constitution instead of using specific language, and a dispute over regional versus federal control of arbitration. He added that the KRG was also seeking to add an additional right of review by regional authorities of decisions taken by the Federal Council on Oil and Gas (FCOG). Disagreement continues on the Revenue Management Law over what percentage of oil revenue should be reserved for investment in "strategic projects" - Shahrستاني thinks they can agree on 10% - and how quickly the KRG will have to remit to the GOI \$160 million in customs duties that it has collected. Shahrستاني said that the Daura refinery was again in operation, but he worried that more interdictions of its crude oil supply pipeline will occur, citing the fact that the pipeline repair crew was under mortar fire as it was repairing the pipe. Shahrستاني stated that the Cabinet had decided to pay the arrearages owed to Kuwaiti fuel transport companies, arising from border closures last winter, so that the Minister of Electricity could purchase \$150 million of diesel fuel for Baghdad power stations. Lastly, Shahrستاني said that Iraq is considering a 150,000 barrels/day crude oil pipeline to Iran's Abadan refinery as an additional export outlet to the offshore terminal at Basrah (ABOT). End Summary.

Hydrocarbon Law

¶2. (C) On July 15, Ambassador Charles Ries, Minister for Economic Affairs and Coordinator of Economic Transition in Iraq, held his first meeting with Minister of Oil Husayn Shahrستاني to discuss several issues, including the Hydrocarbon Law. Shahrستاني stated that the GOI and the KRG had been trading comments on the latest text for the last several days. Three minor points had been resolved, with two issues remaining. The KRG proposed amending one section of the HC Law by replacing the original text with a simple reference to the constitution. The GOI objected on procedural grounds, stating that they could not make major substantive alterations to the text agreed upon by the Council of Ministers on February 26, since it would put in question that Council of Ministers approval. Moreover, Shahrستاني asserted, the law should provide explicit language to implement the constitutional provision on control of resources, not simply refer to it. Shahrستاني added that, in his opinion, the KRG had a fundamental misunderstanding of how its constitutional rights to participate in oil development and policy formulation would

be guaranteed. Shahrستاني said the KRG's membership on the Federal Council on Oil and Gas (FCOG) was the mechanism. The KRG's contention that the FCOG would have to consult with the regional government after it had made a decision was wrong. He said, "You can't expect that body to go back to the KRG for consultation when the KRG has a voice on the Council." Shahrستاني said that this would effectively give the KRG veto power over FCOG decisions.

13. (C) Second, according to Shahrستاني, the KRG, wanted to change the arbitration clause of the law to require mediation by a regional minister instead of the Minister of Oil if a commercial, petroleum-related dispute occurs in a region. Shahrستاني said the GOI will not accept this because it varies from the COM-approved draft.

14. (C) Shahrستاني and the GOI chief negotiator, Thamir Ghadhban, planned to call KRG Minister of Natural resources Ashti Hawrami to discuss GOI opposition to the Kurds' position on the two remaining issues. If the telephone conversation was not sufficient to reach agreement, they would draft a letter to the KRG formally notifying it that they were sticking to the original draft.

15. (C) Shahrستاني summarized the political alignment for and against the law. He said that Minister of Planning Ali Baban (Sunni), even though he voted for the law in February, had changed his mind and now opposed it; in fact, Baban said he would resign if the law was passed. Baban, according to Shahrستاني, said that the KRG had broken the agreements accompanying the law by moving ahead with petroleum development in the Kurdish region. The KRG will disobey the law, Baban reasoned, so why pass it? Shahrستاني admitted that it would not be advisable to pass the Hydrocarbon Law

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with only Shi'a and Kurd bloc agreement, i.e. without Sunni buy-in. He said the Sadrists, with 30 members of parliament, will also vote against it, as will a few independents. He said the Iraqiyya (secular) party would vote against the law, but that a significant minority of Iraqiyya's 25 MPs might vote for it. Tawafuq publicly opposes the law, but Shahrستاني noted that a new Sunni faction under Abid Mutlek al Jaburi, called the Arab Independent Bloc (AIB), had been formed recently. He said that the group has 12 members, and that he believed the government could work with AIB and get their support. (Note: According to al Jaburi on July 14, the actual number is 6). This would allow the law's supporters to package the law as passing with some Sunni support.

16. (C) Econ Minister Ries noted that the local press was reporting opposition to the law. The government should make an affirmative case for the law, explaining how it would help unlock Iraq's oil potential, he said. Shahrستاني replied that the strong opposition was in the Arab regional media more than the local press, adding that the Arab media was largely funded by Saudi Arabia. He added that the Saudis' motive was to prevent the law from passing in order to inhibit Iraqi petroleum development. (Note: Earlier on July 15, independent Sunni MP Mithal al Alusi told poloff that both Iran and Saudi Arabia, to forestall the development of a competitive Iraqi oil industry, were behind the Arab media campaign to discredit the law.)

Revenue Management Law

17. (C) Shahrستاني said that the KRG and Shi'a coalition had agreed on the draft text of the Revenue Management Law. He said that this also was something that they should not adopt without the Sunnis, however. Sunni Minister of Planning Ali Baban had reservations on the present draft. The two issues to be resolved were 1) how Iraqi revenue will be allocated to "strategic" national investments and the KRG insistence on the right of regional veto of such allocations, and

2)settlement of the "pending accounts," in which the KRG is holding \$160 million in customs receipts. Shahrستاني said that he favored a 10% off-the-top allocation to the strategic investment fund, and believed that that figure would be agreeable to most other ministers. He mentioned DPM Barham Salih was pushing for 5%. With regard to the KRG request for regional approval of strategic projects, Shahrستاني said that you simply cannot have a federal decision held hostage to regional veto. He added that the dispute was the reason the Revenue Management Law was taken off the COM agenda on June 23.

Pending Accounts

¶8. (C) Shahrستاني said that the original text of the Revenue Management Law called for the KRG and GOI to settle the magnitude of the pending accounts within one month. The Kurds were pushing to eliminate the time limit. Shahrستاني said that the Kurds seemed to have the mistaken impression that this provision meant payment was due in 30 days. In fact, the KRG could pay over time, but that the issue of how large were the KRG balances held for the GOI had to be resolved within one month. If the two issues (proportion of strategic investments and pending balances) were resolved, Shahrستاني said that he believed that the Shi'a coalition and VP Tarik al-Hashemi would be able to support the Revenue Management Law, but he did not know the total number of votes the law would ultimately attract. Economic Counselor Daniel Weygandt, who accompanied Ries to the meeting, suggested that more Sunni support could be gained by offering a compromise gesture of some sort in another area. Shahrستاني agreed, suggesting an agreement to review detainee files would be an appropriate gesture.

Ministry of Oil Reorganization and INOC Reconstitution Laws

¶9. (C) Shahrستاني said that they had made much progress on the Ministry of Oil reorganization law and the Iraq National Oil Company (INOC) reconstitution law. The MinOil law was done, and was not controversial - it simply followed the HC Law. It had already been submitted to the Shura Council. The INOC law was almost ready. The KRG wants the law to specify that INOC is not part of MinOil, a request that Shahrستاني said he can easily accept. Shahrستاني promised, in answer to Ambassador Ries's request, to forward us copies of the laws after they come out of the Shura Council. He added that it is important not to hold up the Revenue

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Management Law and the HC Law while waiting for the MinOil and INOC laws.

Daura Refinery Interdiction

¶10. (C) Shahrستاني expressed concern about the security situation on the pipeline supplying crude oil to Daura refinery, which had been out of service until the day before the meeting following an insurgent interdiction on July 4. (Comment: the pipeline was also interdicted on June 28, but was repaired before the refinery had to shutdown.) Shahrستاني said that the security situation was worsening and he expected the pipeline to be attacked again. He noted that the pipeline crew had been shelled by mortars while repairing the line. In answer to Ambassador Ries's question about installing a new pipeline to Daura (Note: the existing line is corroded and can not carry enough crude to keep Daura at full capacity. End note), Shahrستاني replied that it would make no sense to put a new pipeline through hostile territory, where it could be interdicted as easily as the old one. He noted that they had added a third 40" pipeline

between Kirkuk and the Bayji refinery, and that the line was hit three times before it was even commissioned. Shahrستاني said that they still cannot export crude oil through the North.

Kuwait and Iran

¶11. (C) Shahrستاني said that the Cabinet had approved \$9.9 million to pay arrearages (on 2006 contracts) to Kuwaiti fuel transport companies, so that Kuwait would allow the Iraqi Ministry of Electricity to receive \$150 million worth of critically needed diesel fuel for Baghdad area power stations. He said that the State Oil Marketing Organization (SOMO) also had \$2.4 million available to settle the debt. He added, however, that the Ministry of Finance would have to pay the \$9.9 million. MinOil did not have the authority to do so on its behalf.

¶12. (C) Shahrستاني said that the crude oil pipeline project being discussed with Iran was part of an old, 2005 agreement. Iraq, he said, viewed the 150,000 bbpd pipeline simply as another export facility that would relieve the pressure on ABOT. Iraq would sell the crude to Iran at prevailing export prices. Iran would use it in the nearby Abadan refinery and export an equivalent amount of Iranian crude. The value of the project would be more export volume for Iraq, and, on the Iranian side, the ability to maximize its current exports so that it does not lose OPEC market share. In effect, the Iranians would be importing crude simply to re-export it.

¶13. (C) Shahrستاني was generally fairly upbeat about prospects for the oil framework and revenue laws, and avoided denunciations of the KRG which had characterized earlier meetings or negotiations. He also offered to cooperate with the United States on supply issues, and warmly welcomed Minister Ries's arrival, saying he would be seeking U.S. assistance to overcome GOI bureaucratic hurdles as Iraq sought to improve its oil and gas sector.

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